THE DOHA ROUND: CLOSING THE PERCEPTIONS GAP

Tim Josling

Senior Fellow, Freeman-Spogli Institute for International Studies, Stanford University

Introduction

- The Doha Round has been on the brink of failure for some months
- Much of the problem has been the difficulty of agreeing the “modalities” for agriculture
- The US has demanded large cuts in tariffs to open up markets for agricultural and other products
- The developing countries have demanded significant cuts in domestic support (farm subsidies) by the US, the EU and Japan
- The EU has offered to end export subsidies but wants disciplines on US programs that affect exports (food aid and export credits)

Introduction

- Such a deal would have considerable benefits for the US and for other countries alike
- Tariffs on agricultural goods would still be high but would cut in half
- Elimination of export subsidies (and more disciplines on state trading exporters) would make export competition fairer
- Domestic support in all countries would be drastically limited, to avoid any return to price-based support
- US policy would become less of a WTO liability

Close the perceptions gap?

- US perception is that the US proposal to cut limit on domestic support by 60 percent was a significant offer
- Others claimed that a total trade distorting support limit of $22 billion would have allowed the US actually to increase funding for trade-distorting policies (current AMS limit is $19 billion)
- A deal could be on the cards that establishes a limit for US trade-distorting support of around $15-17 billion
- This would cut AMS spending to about $11 billion

Close the perceptions gap?

- Such a deal would not impact US agricultural policy immediately: subsidy payments would stay within these limits for as long as corn prices stayed high
- USDA Farm Bill proposals go some way to making policy consistent with a DDA package, but more will have to be done
- Revenue-based CCPs consistent with new Blue Box but not with Green Box
- EU agriculture can live with big cut in trade-distorting subsidies: 2003 reforms put most payments into the Green Box

Close the perceptions gap?

- US has demanded deep cuts in agricultural tariffs in part to open up EU markets
- EU has (informally) increased its offer to 51 percent but argues that it needs flexibility for “sensitive products”
- Developing countries want to shelter over 20 percent of their tariff lines from cuts
- The US has argued that both sensitive and special products threaten to gut the market access gains expected of the DDA

Close the perceptions gap?

- EU tariffs could be cut by 54 percent with relatively modest impacts on farm income
- There would be limited exceptions for "sensitive products" and additional TRQs would be required
- Developing countries would be allowed to exempt "special products" from cuts and to use a Special Safeguard Mechanism in cases of import surges
- Developing countries would agree to improved market access in the area of manufactured product tariffs (Swiss Formula of 20) and services

Close the perceptions gap?

- US would have to agree in reduction in Dairy and Sugar tariff protection, as well as cuts in administered prices
- Ethanol tariff would be cut, to the advantage of external sugar producers who are gearing up to supply the US market
- New export markets for US goods would open up, though not so much in Europe as in emerging developing countries

Close the perceptions gap?

- Export subsidy elimination would be good for wheat and barley producers
- Curbs on Canadian Wheat Board would be welcomed in US (though Canada is in the process of changing the status of the CWB)
- Export credit guarantees would be disciplined, but compliance with the cotton panel is already doing this
- Food Aid changes to more cash grants are in any case beneficial to developing country recipients

What are the Alternatives?

- If the Doha Round does not reach an agreement in the next few weeks, it may be some years before another chance arises
- Regional agreements would be energized in Asia: China, India and Japan are negotiating agreements within the region
- Bilaterals are being expanded between Europe and Asia, as well as with developing countries and Russia
- The US, without TPA, will face more competition in overseas markets

What are the Alternatives?

- Legal challenges under existing WTO rules could emerge to dismantle parts of US farm policy
- Cotton panel has already questioned the Green Box notification of the Fruit and Vegetable exemption
- Cotton panel found CCPs and LDPs cause serious prejudice to other exporters
- Brazil will challenge again if US cotton policy is not modified (in Farm Bill or in DDA)

What are the Alternatives?

- Similar reasoning applies to other commodities
- Canada has challenged US corn programs
- Even when prices are high, markets can still be affected by subsidies
- Real possibility that corn challenge could be successful
- Rice policy is also vulnerable if arguments about specific sub-markets for rice are plausible

Bottom Line

- It is worthwhile making adjustments in domestic policy that are in any case worthwhile in domestic terms
  - More environmental stewardship links to income support expands constituency
  - Less trade-distorting policies allows the US to regain its leadership in international trade
  - Policies in conformity with WTO removes uncertainly for producers
- These advantages would be evident even without a DDA agreement

Thanks for Listening

Contact author at josling@stanford.edu